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FISCAL IMPACT STATEMENT

LS 6623

BILL NUMBER: HB 1207

NOTE PREPARED: Feb 15, 2007

BILL AMENDED:

SUBJECT: Energy Assistance Contingency Fund.

FIRST AUTHOR: Rep. Klinker

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill creates the Energy Assistance Contingency Fund to be used for low-income home energy assistance and efficiency measures. The bill also appropriates heating energy Sales Tax revenue to the Fund. The bill requires the Lieutenant Governor to administer the Fund.

Effective Date: July 1, 2007.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The bill would require a number of changes related to the collection and administration of the Sales Tax on heating energy sales. Currently, aside from the Sales Tax collected on certain motor fuels, Sales Tax revenue is not directly identifiable by the type of product sold. As such, the bill would require DOR to make administrative changes necessary to track and separate collections from the sale of heating energy from other Sales Tax revenue. It is presumed that the DOR could make these changes using existing staff and resources.

Lieutenant Governor: The Lieutenant Governor (LG) would be responsible for the administration and distribution of any funds collected in the Energy Assistance Contingency Fund. While this bill will increase the funds distributed by the LG to organizations that serve and make grants to eligible low-income households, it is not expected to have a significant impact on the LG. Additionally, the bill provides that a percentage of the appropriation may be used for administrative costs. (See *Explanation of State Revenues.*)

Explanation of State Revenues: *General Fund Revenue:* Sales Tax revenue deposited in the General Fund could be reduced by approximately \$202.6 M in FY 2008 and \$70.4M in FY 2009. However, an estimated \$132.2 M will also be held in a dedicated account during FY 2008 for first deposit into the state General Fund on July 1, 2008, and July 1 of each year thereafter. This impact is due to two different provisions in

the bill.

First, the bill changes the distribution of the Sales Tax collected from residential and commercial sales of heating energy. Beginning in FY 2008, incremental collections of the General Fund portion of Sales Tax revenue from the sale of the heating energy will be appropriated to the Energy Assistance Contingency Fund. The increment is calculated based on the fiscal year collections above the average yearly Sales Tax revenue collected on heating energy sales from FY 2004 to FY 2006, multiplied by 49.192%. Based on data from the U.S. Energy Assistance Agency, it is estimated that this baseline amount will equal \$132.2 M. **Based on projected Sales Tax revenue from heating energy, this transfer is estimated to reduce General Fund revenue by \$70.4 M in FY 2008 and FY 2009.**

The second change made in the bill affects the timing of distribution of Sales Tax revenue to the General Fund. Under current law, 49.192% of all Sales Tax revenue collected from the affected sales would be deposited in the state General Fund as the collections are received. Under this bill, 49.192% of the Sales Tax collections from sales of heating energy would instead be deposited with the Auditor of State. The Auditor would then transfer revenue in excess of the \$132.2 M base to the Energy Assistance Contingency Fund on or before the end of each fiscal year. The remaining \$132.2 M base would be transferred to the state General Fund on July 1 of the following fiscal year. ***This proposal will result in a shift of \$132.2 M in General Fund revenue that would have otherwise been deposited in the state General Fund during FY 2008 to instead be deposited in FY 2009.*** Similarly, General Fund collections received during FY 2009 would actually be deposited in the General Fund in FY 2010, etc.

Background Information: Based on consumption data and price projections from federal sources, it is estimated that the Sales Tax on commercial and residential sales of the heating energy will generate approximately \$411.8 M in FY 2008 and FY 2009 in total Sales Tax revenue. Under current law, all revenue from the Sales Tax on heating energy is distributed, upon receipt, to the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.140%), and the Industrial Rail Service Fund (0.033%). Under this bill, the Department of State Revenue is instead required to transfer 49.192% of the Sales Tax collected on the affected fuel sales to the Auditor of State. The Auditor would then transfer revenue in excess of the \$132.2 M base to the Energy Assistance Contingency Fund on or before the end of each fiscal year. The remaining \$132.2 M base amount would be transferred to the state General Fund on July 1 of the following fiscal year.

In FY 2008 and FY 2009, 49.192% of the Sales Tax collected from the heating energy is estimated to be \$202.6 M. Since this portion of the Sales Tax on residential and commercial sales on heating energy is estimated to generate approximately \$202.6 M in FY 2008, approximately \$70.4 M ($\$202.6 \text{ M} - \$132.2 \text{ M} = \70.4 M) would be shifted from the state General Fund to the Energy Assistance Contingency Fund. Other funds receiving Sales Tax revenue would not be affected.

Administration of the Energy Assistance Contingency Fund: This provision would make available approximately \$70.4 M in FY 2008 and FY 2009 for energy assistance programs to households at or below 200% of the federal poverty level through the Energy Assistance Contingency Fund. According to the U.S. Census Bureau (*Current Population Survey, 2006 Annual Social and Economic Supplement*), there were approximately 416,000 families at or below 200% of the poverty level in Indiana in 2005. The bill provides that 25% of the revenue in the Fund would be used to fund home energy efficiency measures and 75% would be used for low-income energy assistance. The LG, or a grantee responsible for administering the program, may use 10% of the 25% allocated for home energy efficiency measures to cover administrative costs.

The existing Energy Assistance Program is administered by the LG. The Energy Assistance Program is currently funded by the Low-Income Home Energy Assistance Program (LIHEAP) federal block grant.

Background information: Future Sales Tax collections on the sale of heating energy are contingent upon a number of highly variable factors, including the weather and fuel prices. This analysis used consumption information and price and usage projections supplied by the U.S. Department of Energy, Energy Information Agency, to estimate past and future Sales Tax collections.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Lieutenant Governor; Auditor of State.

Local Agencies Affected:

Information Sources: Department of State Revenue; Lieutenant Governor; U.S. Census Bureau; U.S. Department of Energy, Energy Information Agency.

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